

# **Public School Retirement System of Missouri**

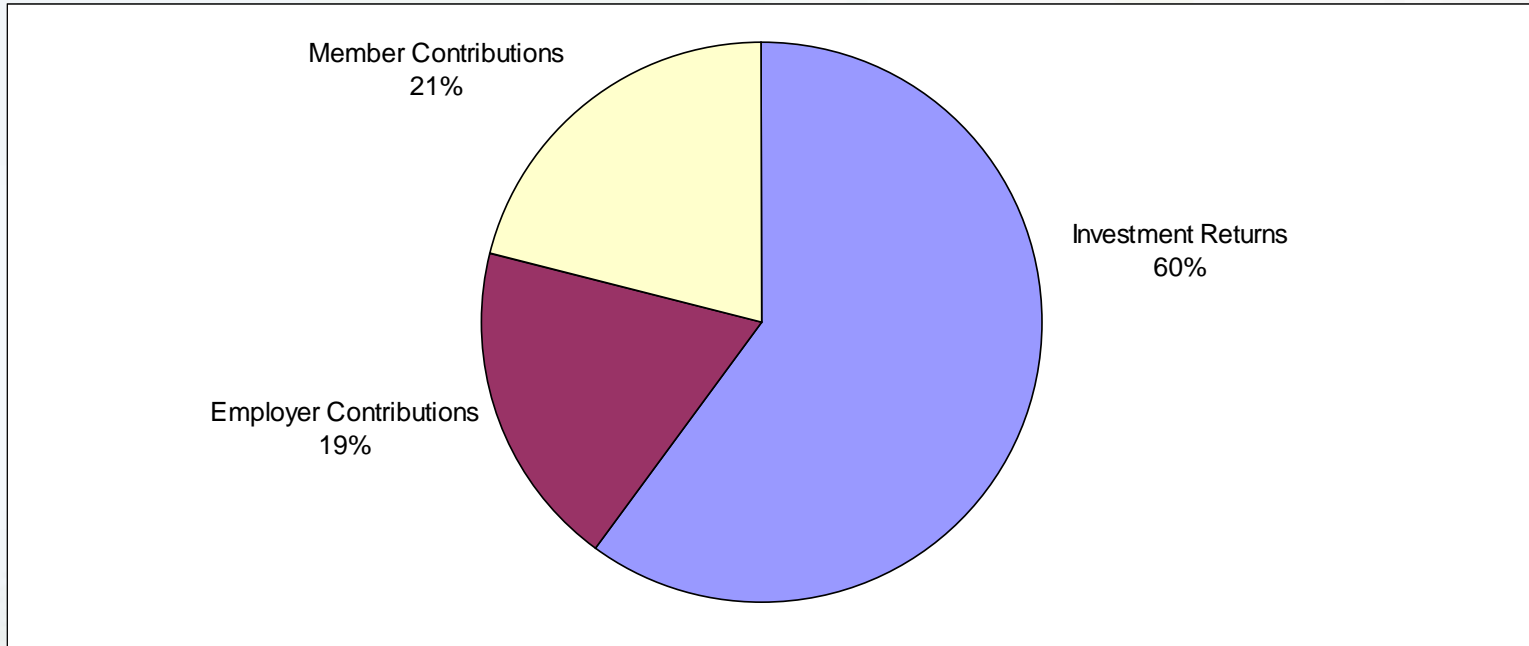
**PSRS Funding Update**  
November 2008

# Today's Agenda

- Sources of Revenue
  - Contributions
  - Investment returns
- Investment Update
- June 30, 2008 Actuarial Report
- Board of Trustees
- PSRS Factoids
- Summary

# Sources of System Revenue

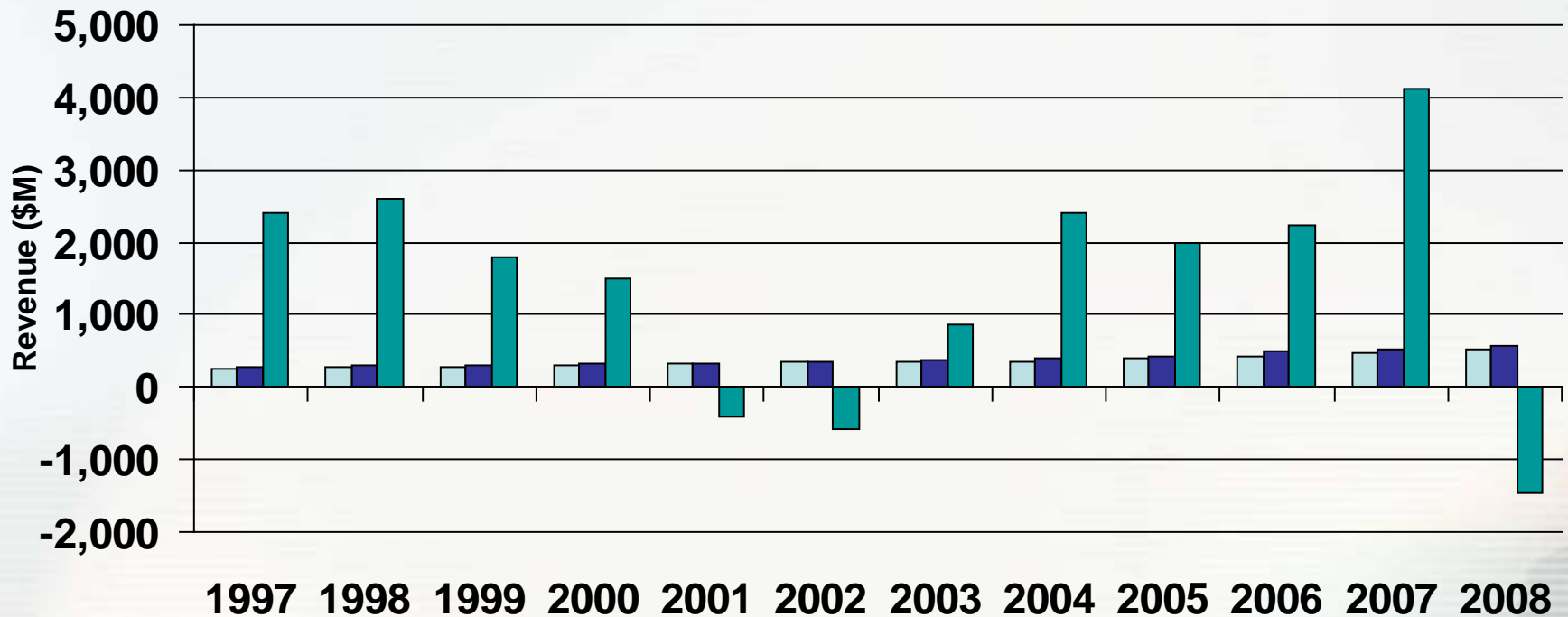
## 10-year average



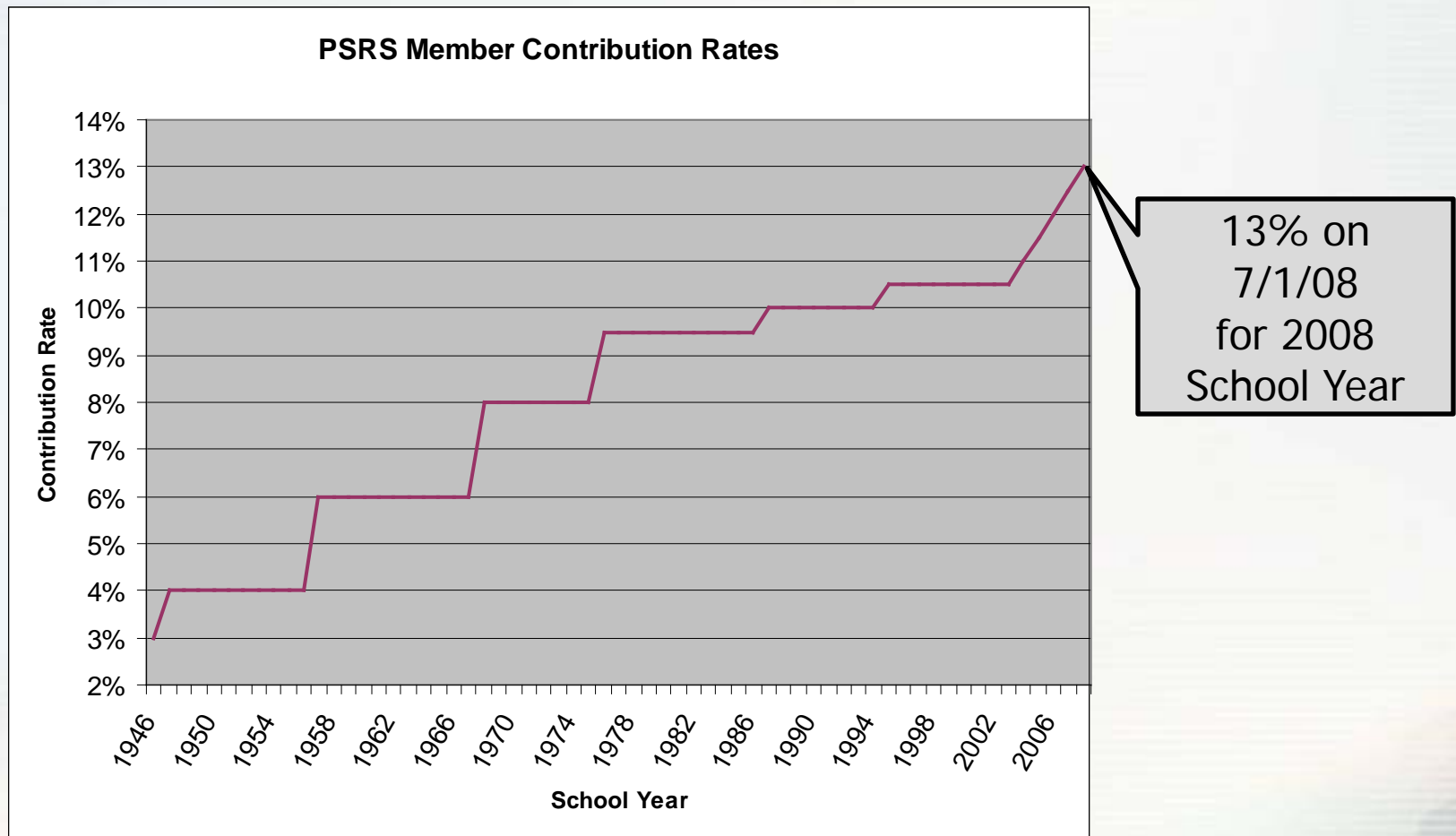
- Between fiscal years 1999 and 2008, investment income provided well over half of total System revenue

# Contributions v. Earnings

Employer Contributions   Employee Contributions   Investment Returns



# PSRS Member Contribution Rate History



- Contribution rates have increased in each of the last 5 years, primarily due to benefit increases and declining investment markets

# Investments: The Current Market

- **The most difficult investment market since the Great Depression**
  - Credit (bond) markets are frozen
  - 10<sup>th</sup> Bear market since WW II (worst stock year since 1937)
  - Market decline has wiped out *Trillions* in wealth
  - Warren Buffett: “ We had an economic Pearl Harbor hit”
- **Investment Performance: last 5 years**
  - PSRS/PEERS fiscal year ends on June 30
  - Negative returns in FY 2008
  - 5 year average above 8%
- **Investment Performance: FY 09**
  - PSRS/PEERS returned -8.9% for the first quarter of fiscal year 2009
    - July 1, 2008 thru September 30, 2008
    - Markets in the second quarter have continued to decline

Fiscal Year	Gross Return
2004	12.40%
2005	9.20%
2006	9.80%
2007	16.57%
2008	-4.60%
5 year average	8.4%

# Global Equity Markets: CYTD (11/10/08)

GRAB Index WEI  
Hit # <GO> to select security  
**World Equity Indices** 95) CCRU 96) SEI 97) WPE 98) EMEQ  
Base Currency: USD Ticker: N

	Last Trade Information				Percent Change	
	Value	Net Chg	% Chg	Time	% Ytd	% YtdCur
<b>1) Americas 2) News</b>						
4) DOW JONES INDUS. AVG	9128.91	+185.10	+2.07	8:45	-31.18	-31.18
5) S&P 500 INDEX	949.12	+18.13	+1.95	8:45	-35.36	-35.36
6) NASDAQ COMPOSITE INDEX	1668.80	+21.40	+1.30	8:45	-37.08	-37.08
7) S&P/TSX COMPOSITE INDEX	9928.18	+331.97	+3.46	8:45	-28.23	-39.84
8) MEXICO BOLSA INDEX	19865.22	+214.36	+1.09	11/7	-32.74	-42.21
9) BRAZIL BOVESPA STOCK IDX	38569.92	+1904.81	+5.20	8:45	-39.63	-49.62
<b>2) Europe/Africa/Middle East 23) News</b>						
10) DJ EURO STOXX 50 € Pr	2651.45	+48.91	+1.88	8:30	-39.74	-46.84
11) FTSE 100 INDEX	4459.32	+94.36	+2.16	8:30	-30.94	-45.23
12) CAC 40 INDEX	3553.58	+84.46	+2.43	8:30	-36.70	-44.17
13) DAX INDEX	5060.99	+122.53	+2.48	8:30	-37.27	-44.67
14) IBEX 35 INDEX	9356.30	+12.80	+1.14	8:30	-38.37	-45.64
15) S&P/MIB INDEX	22366.00	+455.00	+2.08	8:25	-41.99	-48.83
16) AEX-Index	271.61	+5.89	+2.22	8:30	-47.34	-53.55
17) OMX STOCKHOLM 30 INDEX	698.27	+19.07	+2.81	8:45	-35.43	-46.12
18) SWISS MARKET INDEX	6153.88	+145.72	+2.43	8:30	-27.47	-29.91
<b>3) Asia/Pacific 24) News</b>						
19) NIKKEI 225	9081.43	+498.43	+5.81	1:00	-40.67	-32.98
20) HANG SENG INDEX	14744.63	+501.20	+3.52	2:10	-46.99	-46.65
21) S&P/ASX 200 INDEX	4107.80	+56.50	+1.39	23:47	-35.21	-48.84

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2577 6000  
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P.  
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- The calendar year return for every major world stock market is down more than 31%

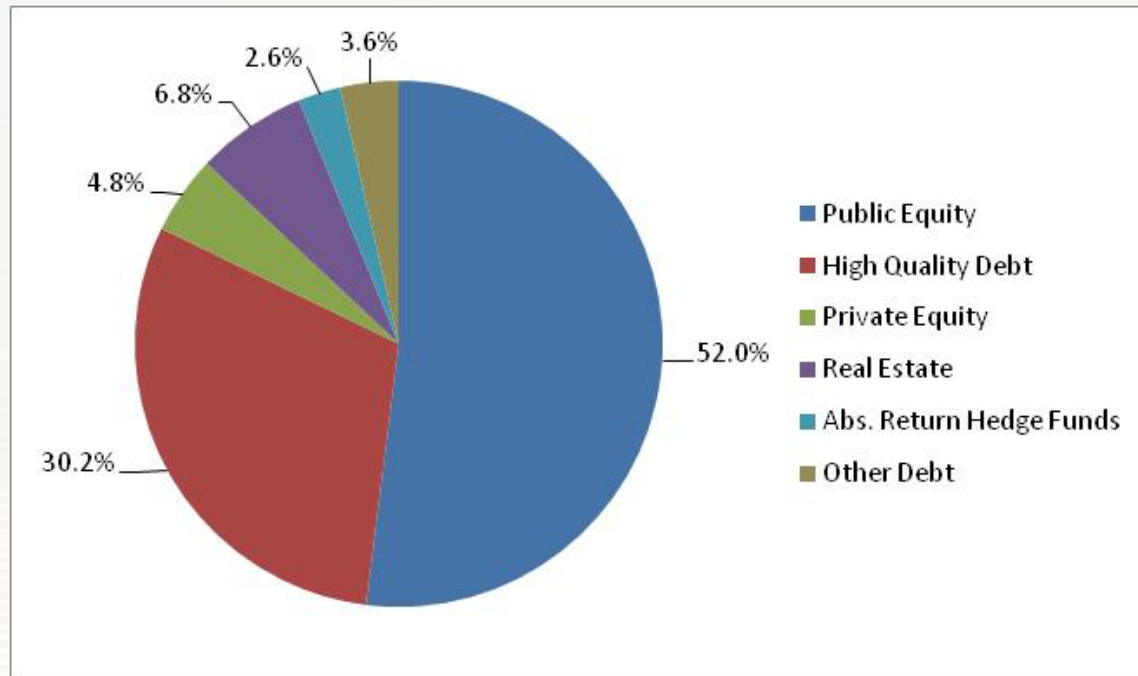
# S&P 500 Since Jan. 1, 2008



- US Stock market for the year

# Investments: PSRS

- PSRS has a large allocation to stocks. Thus, if the stock market is down, the PSRS portfolio will be affected
  - 52% of the total assets were invested in stocks as of 10/31/08
- Diversified Asset Allocation
  - Broadly diversified investment portfolio provides protection in down markets
  - Allocations to bonds, private equity, real estate and absolute return investments



# Investments: PSRS

- **The Systems have developed a professional organization to manage a multi-billion dollar pension fund**
  - Deep internal staff,
  - Detailed Investment Policy,
  - External specialist consultants,
  - External investment managers
- **PSRS sold all corporate bonds and moved 25% of the total assets into Treasury securities in January**
  - Treasury securities are the safest most liquid assets in the world
  - *This move has saved the Systems almost \$1 billion in the last 10 months as the bond credit markets have deteriorated*
- **PSRS' liquidity**
  - As of 10/31/08, over 30% of the portfolio was invested in liquid securities (treasuries)
  - Ample liquidity allows the Systems to meet all benefit payments and to opportunistically invest in the markets

# Investments: PSRS

- System continues to focus on a well diversified and disciplined investment program
- Maintain a long-term investment horizon and focus on long-term opportunities
- *Investing is a marathon – not a sprint*



# June 30, 2008 Actuarial Report

- The actuary provides an actuarial valuation of the System each year
  - 'Snapshot' as of June 30
  - System pre-funded status was 83.4%
  - The June 30, 2008 (FY 08) report showed an unfunded actuarial accrued liability of \$5.7 billion
  
- Contribution rates
  - The Board of Trustees will set the contribution rate for FY10 at the December Board meeting
  - "ARC" (Actuarial required contribution) rate = 28.45%

# Board of Trustees

## ■ Fiduciary Duty

- The Board has the fiduciary duty to adequately fund the system based upon advice of our actuary
- Contribution rate increases are currently limited by legislation (1% increase per year for PSRS, ½ % increase per year for PEERS)
- Section 169.030.6, RSMo., provides in part
  - » ...no legislation shall be enacted after July 1,2003, that increases benefits provided to members or retirees of the public school retirement system of Missouri above that which may be funded using a rate of contribution of ten and one-half percent ...

## ■ Board of Trustees of PSRS/PEERS of Missouri passed a Benefit Resolution

- Respectfully urges the General Assembly not to adopt any benefit increases until the unfunded actuarial accrued liability has been paid and the contribution rates have stabilized for Missouri teachers and school districts

# PSRS Factoids

- Total active/inactive membership = 88,728
- Total number of benefit recipients = 39,828
- Annual retiree benefits paid = \$1.2 Billion
- 93 retirees age 100 or more (Oldest 108)
- Retiree receiving monthly benefits uses up their entire account balance in 5 years or less – remaining benefits paid over lifetime funded by district contributions and investment returns
- Number of new service retirees July 2008 = 2,205
- Average age of July 2008 retiree = 56.8
- Average July 2008 retiree years of service credit = 26.7
- Average July 2008 retiree single life monthly benefit = \$3,705

# Summary

- The PSRS/PEERS Board and staff continue to focus on maintaining the financial solvency, strength, and integrity for Missouri's public school employees.
- Benefits are created by Missouri State Statutes and backed by the Missouri Constitution – benefits cannot be diminished or impaired
- Members are fortunate to participate in a defined benefit plan
- PSRS/PEERS is committed to paying a lifetime of benefits based on years of service and final average salary
- Retirees will continue to receive their monthly checks as promised
- Negative investment returns will have an impact on future contribution rates